



EQUITY PLAN SOLUTIONS SERIES: Plan Administration & Optimization

2018 YEAR-END BEST PRACTICES FOR EQUITY PLAN PROVIDERS

Now is the time to prepare for 2018 year-end tax reporting. Here is a run-down of some of the major items to be aware of, from key documents to important changes for the year. Keep in mind requirements, rates and forms often change year over year, so while this 2018 overview can serve as a helpful reference, be sure to stay current and consult your own experts.



Social Security and Medicare

In 2019, both the Social Security tax and Medicare tax rates will remain the same, at 6.2% and 1.45%, respectively. With the new wage cap of \$132,900, the maximum withholding for Social Security will be \$8,239.80. Medicare tax rates are not subject to a maximum. The threshold at which the additional Medicare tax of 0.9% applies is unchanged at \$200,000.



Tax Rates

When it comes to rates themselves, you'll want to focus on specific state and country rates, and your company may be dealing with multiple rates. Make note of any changes from last year when you submit your import files, and be sure those changes are reflected in your payroll system.



Year-end Requirements

Releases or Purchases

- Make sure the tax import file has correct tax year on the release/purchase file

Blackouts

- Provide 2019 company blackout dates for transactions (if you do not have all the blackout dates for the upcoming calendar year, update the details as soon as they are available)

Corporate Actions

- Report corporate actions on a 1099 form, as they may affect the tax reporting

SOX Controls

- Verify access to data for SOX controls (this may be required quarterly or annually, based on your narrative)



Communicate with Internal and External Stakeholders

Once you have gathered all the required information, it is time to work with your internal partners, such as accounting teams, payroll teams and human resources to create a list of the reports you ran last year for your business partners. If there are any files to report this year, we strongly recommend keeping all the information, including termination information, up-to-date in the reports. It is also very important to confirm your tax rates and have appropriate approvals from your third-party vendors.



Form W-8 Changes and Updates

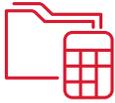
This year brought about some noteworthy changes and updates regarding W-8 certification. One of the biggest changes is the date of birth (DOB) requirement. As of 2018, the IRS requires both DOB information and a tax ID number to validate the form. That said, the IRS will consider a previously filed form that only contains a foreign tax ID to be valid until it expires. Based on the U.S.'s arrangement with these countries, the IRS gives an option to individuals from Australia, Bermuda, the British Virgin Islands or the Cayman Islands to refuse to provide DOB information. Additionally, a foreign Taxpayer Identification Number (TIN) is not required for citizens of these countries.



Tax Forms: Who Receives What

- 1099-B for sale of stock: Anyone who is not W8-certified (generally non-U.S. employees)
- 1099-DIV for sale of free and clear shares: Anyone who is W9-certified only (generally employees with a U.S. Social Security number)
- 1042-S for international participants who have dividend income for the year: Anyone who is not W9-certified
- 3921 for exercise of an Incentive Stock Option (ISO): Anyone who exercises an ISO
- 3922 for transfer of stock through an employee stock purchase plan (ESPP): Anyone who transfers ESPP shares

The deadline for the above forms is February 28th for paper filers or March 31st for electronic filers. (And your employees must receive their W-2 forms by January 31st.) The penalties for late or omitted filings of Forms W-2, 1099, 3921 and 3922 have been adjusted upward based on inflation. As always, it is important to adhere to the IRS's deadlines to avoid fines.



Accounting Updates

A significant and positive change occurred this year: Accounting for non-employee grants and awards has been simplified to follow the same accounting rules that apply to employees (with certain exceptions). Under the new guidance, non-employee equity awards can be measured on the grant date.

Separately, an area that has generated a lot of questions this year is supplemental wage withholding. It is up to the employer to specify withholding rates. The minimum rate for supplemental wages under a million dollars is 22%; the maximum rate for wages that exceed \$1 million is 37%. Remember, supplemental wages must be separately identified, and mandatory withholding at 37% cannot be overridden by a W-4.



Aftermath of the TCJA

The Tax Cuts and Job Acts (TCJA), which was passed in December 2017, has been an ongoing hot topic this year. The act has significantly impacted Section 162(m), which limits the deductibility of compensation a company can take in a given year. This limit is now \$1 million per year for executives. Under the new 162(m), effective on January 1, 2018, there is an expansion of the covered employee group, which now includes the CFO in addition to the CEO as well as the three other most highly compensated employees. It's also important to note that once someone is considered a covered employee, he or she will always be a covered employee, despite any changes in income or bonus in subsequent years.

There's certainly a lot to keep track of, but there are many resources available to help you navigate the process. For more information about specific forms, please refer to the IRS Tax Calendar. If you have any questions, AST Equity Plan Solutions would be happy to assist. Please contact Ralph Balzano rbalzano@astfinancial.com or Maria Acevedo at maacevedo@astfinancial.com.



EQUITY PLAN SOLUTIONS

Building A New World In Plan Management

Leading the industry with a full suite of integrated plan sponsor and participant advantages, AST Equity Plan Solutions is your strategic partner for employee equity plans that help motivate, align, and incent employees.

- AST provides tailored solutions that offer flexibility and the level of support you need.
- Stock Options, Restricted Stock & Performance Awards
- Employee Stock Purchase Plans
- Administrative & Financial Reporting
- Executive Services

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